

Message Text

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ACTION NEA-10

INFO OCT-01 EA-06 ISO-00 AID-05 CIAE-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 L-03 H-02 NSC-05 SS-15

STR-04 CEA-01 PA-01 PRS-01 AGR-05 (ISO) W

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R 060605Z JUN 75

FM AMCONSUL MADRAS

TO AMEMBASSY NEW DELHI

INFO SECSTATE WASHDC 2920

USDOC WASHDC

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMEMBASSY KUALA LUMPUR

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E.O. 11652: N/A

TAGS: EIND, EINV, IN

SUBJECT: DELAYS IN GENERAL TIRE - TAMIL NADU

RUBBER PROJECT

1. THE RS. 255 MILLION TAMIL NADU RUBBER TIRE PROJECT (TNR),
IN WHICH GENERAL TIRE OF THE US HAS A COLLABORATION, SEEMS TO
HAVE RUN INTO SOME FINANCIAL AND POLITICAL DIFFICULTIES AT A LATE
STAGE IN THE GAME. ACCORDING TO A REPORT IN THE ECONOMIC
TIMES OF MAY 23, CONSTRUCTION OF THE PLANT HAS BEEN HALTED
BECAUSE
THE PRIVATE PARTICIPANT IN THIS JOINT SECTOR PROJECT,
A.R. NAGARAJAN, WAS UNABLE TO RAISE THE CAPITAL HE HAD
PLEDGED.

2. COMPARED WITH THE OTHER TIRE PROJECTS UNDERWAY HERE,
INCLUDING TWO OTHERS WITH GENERAL TIRE COLLABORATION, TNR
INVOLVED AN UNUSUALLY HIGH PROMOTER'S CONTRIBUTION
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REPRESENTING 37.5 PERCENT OF THE TOTAL EQUITY

CAPITAL. THE USUAL LIMIT ON ANY ONE PRIVATE SHAREHOLDER IN A JOINT SECTOR PROJECT IS 25 PERCENT. THE GOVERNMENT (IN THIS CASE, THE TAMIL NADU INDUSTRIAL DEVELOPMENT CORPORATION, OR TIDCO) TAKES A 26 PERCENT SHARE WHICH GIVES IT A VETO POWER OVER CRITICAL MANAGEMENT DECISIONS THAT REQUIRE A THREE-QUARTER MAJORITY. ACCORDING TO THE ECONOMIC TIMES ARTICLE, THE UNUSUAL CONCESSION WAS GRANTED IN THIS CASE BECAUSE A MINIMUM OF RSJA WP MILLION, OR 2.5 MILLION DOLLARS OF NAGARAJAN'S CONTRIBUTION WOULD BE IN NON-REPATRIABLE FOREIGN EXCHANGE FROM THE FAMILY'S ESTATES IN MALAYSIA, WHERE NAGARAJAN WAS ASSOCIATED WITH HIS FATHER, N.T.S. ARUMUGAM PILLAI, A MALAYSIAN CITIZEN WHO REPORTEDLY OWNS 8,600 ACRES OF RUBBER TREES AND A RUBBER FACTORY.

3. ACCORDING TO S. VASUDEVAN, THE BUREAU CHIEF OF THE ECONOMIC TIMES, NAGARAJAN WAS SELECTED AS THE PRIVATE PARTNER BECAUSE HE WAS A CLOSE PERSONAL FRIEND OF TAMIL NADU INDUSTRIES MINISTER S. MADHAVAN. IT IS PERHAPS NOT ALTOGETHER COINCIDENTAL THAT THE TNR PLANT IS TO BE LOCATED IN MADHAVAN'S HOME DISTRICT, RAMANATHAPURAM. HOWEVER, MADHAVAN WAS TRANSFERRED FROM INDUSTRIES TO FOOD IN LATE 1974 TO GIVE THAT MINISTRY STRONGER POLITICAL LEADERSHIP WHEN THE SCOPE OF DROUGHT-CAUSED FOOD SHORTAGES FIRST BECAME CLEAR AND PRICES SHOT UP ALARMINGLY. WITH MADHAVAN'S TRANSFER, NAGARAJAN LOST HIS POLITICAL CLOUT. AS A RESULT, BANKS WHICH HAD EARLIER PROMISED LOANS ARE NOW HOLDING BACK, AND BANKS WHICH HAD MADE LOANS ARE DEMANDING EARLY REPAYMENT. NAGARAJAN ALSO REPORTEDLY COMPLAINED TO MADHAVAN THAT TIDCO OFFICIALS HAD BEGUN TO MAKE THINGS DIFFICULT FOR HIM FOLLOWING A DISPUTE OVER WHETHER TNR, WITH ITS DOMINANT SHARE-HOLDING, WOULD RETAIN MANAGEMENT CONTROL. IN MAY, INDUSTRIES SECRETARY HARBANS SINGH (IAS), WHO WAS PREVIOUSLY TIDCO CHAIRMAN, AND E.C.P. PRABHAKAR (IAS), THE CURRENT TIDCO CHAIRMAN, WERE TRANSFERRED TO OTHER JOBS. THERE IS NO INDICATION WHATSOEVER THAT THEIR LIMITED OFFICIAL USE

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TRANSFERS WERE IN ANY WAY RELATED TO THE TNR DISPUTE, OR THAT THEY, OR THEIR REPLACEMENTS, ARE EITHER WELL OR ILL DISPOSED TOWARDS TNR. BUREAU CHIEF VASUDEVAN SIMPLY MADE THE OBSERVATION THAT, IN SPITE OF NEW BLOOD IN TIDCO, IT IS NOW HARD FOR NAGARAJAN TO WORK SMOOTHLY WITH TIDCO, PARTICULARLY WITHOUT A STRONG SUPPORTER AT THE MINISTERIAL LEVEL, SINCE THE OPPOSING POSITIONS ARE A MATTER OF RECORD.

4. BOTH TNR OFFICIALS AND THE NEW TAMIL NADU INDUSTRIES SECRETARY HAVE DENIED TO US THAT TNR IS IN TROUBLE AND HAVE CALLED THE ECONOMIC TIMES STORY DISTORTED AND INCORRECT. HOWEVER, THEY CAN OFFER NO BETTER COUNTER ARGUMENTS THAN TO SAY THAT EVERY INDUSTRIAL PROJECT IN INDIA INVOLVES SLIPPAGES. NAGARAJAN IS PRESENTLY IN MALAYSIA TRYING TO SORT OUT HIS PROBLEMS. VASUDEVAN SAID THE ESTATE APPARENTLY IS IN HIS FATHER'S NAME, AND LEGAL COMPLICATIONS HAVE DEVELOPED IN GETTING THE FUNDS OUT OF MALAYSIA.

5. IF NAGARAJAN'S FATHER, N.T.S. ARUMUGAM PILLAI, IS KNOWN TO EMBASSY KUALA LUMPUR, IT WOULD BE INTERESTING TO KNOW WHETHER THE EMBASSY CAN SHED ANY LIGHT ON WHATEVER LEGAL DIFFICULTIES NAGARAJAN MAY ENCOUNTER.
EAVES

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